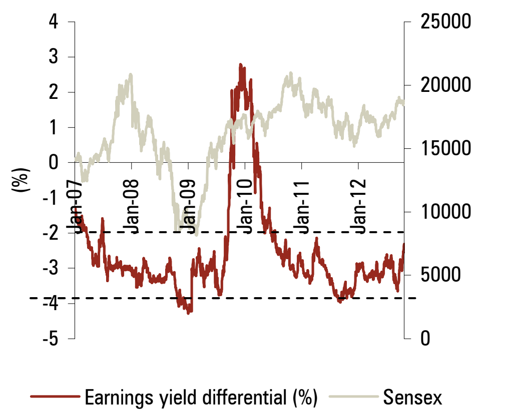
Muhurat Picks 2012

November 7, 2012

December 2012 Sensex Target

Scenario Analysis	Bear Case	Base Case	Bull Case
P/E multiple	13x	13x	14x
Earnings discounting	FY13E	FY14E	FY14E
Sensex EPS	1268	1439	1439
CY12 Sensex Target	16484	18707	20146
Nifty Target	4950	5618	6050

Earnings yield differential and Sensex Movement



Muhurat Picks for 2012:

- **SBI**
- **Coal India**
- **Lupin**
- **Marico**
- **JK Lakshmi Cement**
- **Glenmark Pharma**
- **Pantaloon Retail**

Muhurat 2012

Focus on '*Stock Picking*': We prefer large caps and midcaps

- The first half of 2012 unfolded in line with our expectations with markets remaining in the broader range. The political leadership in Europe continues to flip flop on policy measures and solvency concerns with whispers of liquidity easing rising while the US continues to focus on domestic topical issues in an election year. Investors continue to perceive US bonds as safe havens (yields at multi-year low of 1.5%) while lack of alternatives and risk-off trades led to record low yields on German bunds, a rise in dollar index, Swiss franc and gold. Fears of moderating growth in China led to commodity sell-offs including crude, a blessing in disguise for India
- However, starting July-August 2012, domestically things have started looking up. The key surprise was the pick-up in policy action from the government side. The key moves being deregulating the petroleum products, hiking limit of FDI in retail and aviation, proposing SEB reforms, direct transfer of cash subsidy, etc. Though it will take time to see the fruits of the above moves, getting the intent right has certainly lifted the *animal spirits*. Consequently, the markets have cheered the same and posted a handsome rally with FII flows reaching record levels of $18.4 billion in YTDCY12. Even on the earnings side, we expect earnings to be tough in FY13E and look up in FY14E given the stage is set for rates to come down, commodity prices are looking weak (amid a global set-up) and a pick-up in domestic economy on the whole
- We are upgrading our CY12E Sensex target range on the back of better-than-expected earnings, liquidity driven rally, muted expectations and rolling forward to FY14E. We now expect the Sensex to trade in the range of 16484 (13x FY13E Sensex EPS of 1268) – 20146 (14x FY14E Sensex EPS of 1439, upside of 15%). Our bull case target multiple is in line with the historical average multiple of 14x while our base case Sensex target now stands at 18707 i.e. 13x FY14E EPS, an upside of 7%. Parallel levels on the Nifty are 4950 on the lower side and 6050 on the higher side

In terms of sector preference, we expect auto (overweight on four-wheelers and underweight on two-wheelers), pharma (earnings visibility), telecom, banking (private banks positive, PSB neutral) to **outperform** while we are **neutral** on capital goods (policy inaction), IT (global macro headwinds), FMCG (valuation concerns) and cement. We expect, infrastructure & real estate (stretched balance sheet), oil & gas (subsidy burden), power (delay in reforms) and metals (global slowdown) to **underperform**

State Bank of India (Buying Range: ₹2210-₹2150)

SBI (Standalone)		FY12	FY13E	FY14E
P/E	x	12.7	11.3	10.3
P/ABV	x	2.2	1.9	1.7
RoE	%	15.7	14.7	14.1
RoA	%	0.9	0.9	0.9

Source:: ICICIdirect.com Research

- SBI is the market leader (~18% market share) by a wide margin with a gross advances of ₹ 9.45 trillion. It has led the rate cuts and is offering one of the lowest lending rate across the industry. In spite of this, it is maintaining one of the highest NIM at ~3.7%. A strong operational performance led by NII enables SBI to cover up for higher provisioning and post decent profitability

- Although NPAs are expected to remain elevated for couple of quarters and stay between 4% and 5%, it is mainly factored in the price. Considering the large size of SBI, its exposure to stressed sectors is relatively low compared to its peers

- Besides, the economy and investment cycle is near bottom and interest rates are expected to come down. A few reform measures (like fast environmental clearance, land clearance, etc.) may surprise positively. Such a scenario remains positive for high beta stock like SBI to outperform

Coal India (Buying Range: ₹348-₹335)

Coal India		FY12	FY13E	FY14E
P/E	x	14.9	12.0	11.4
EV/EBTIDA	x	10.4	7.7	6.8
RoE	%	36.3	37.0	32.8
RoCE	%	35.3	36.7	32.5

Source:: ICICIdirect.com Research

- Coal India (CIL), the largest coal producing company in the world, also enjoys a monopoly status in the Indian domestic market. CIL contributes ~80-85% of the country's total coal output and on the demand side meets ~65-70% of domestic consumption requirements. Coal India produces ~90% of its coal through open cast mining and witnesses low stripping ratio, which ensures that reserves are easily extractable thereby helping it position itself among the lowest cost coal producers in the world

- On the back of massive capacity addition anticipated in the power sector over the next few years, majority of which is expected in the thermal segment there exists an imminent demand of coal, which augurs well for Coal India and the company is well placed to cater to the rising demand

- CIL has a strong balance sheet with robust cash flow and a healthy liquidity position, which augurs well for the company. Going forward, CIL is well poised to deliver healthy performance and is a priced asset to be held in one's portfolio.

Lupin (Buying Range: ₹590-₹565)

Lupin		FY12	FY13E	FY14E
P/E	x	30.3	23.0	18.1
EV/EBTIDA	x	19.1	14.2	11.6
RoE	%	22.1	23.9	24.6
RoCE	%	21.8	26.9	28.7

Source:: ICICIdirect.com Research

- Lupin is well poised to register strong growth in the US generic space as the gap of filing and launches (176 approvals and just 42 launches cumulatively) assures sales traction for a sizable future, add to this, the potential upsides from FTFs and limited competition products (at least 10). The branded space is expected to get a boost from the launch of Suprax drops and chewable version.

- Things are also improving in Japan where we expect improvement in gross margins once product supplies from Goa facility kick in. The India business is also slated to grow above industry average with chronic focus and new launches

- The management has guided for ~100 bps improvement in EBITDA margins every year on the back of continuous improvement in product mix and cost rationalisation. We expect sales, EBITDA and PAT to grow at a CAGR of 24%, 27% and 29%, respectively, in FY12-14E. The stock is currently quoting at 18x FY14E EPS of ₹ 32.5.

JK Lakshmi Cement (Buying Range: ₹127-₹120)

JK lakshmi		FY12	FY13E	FY14E
P/E	x	10.2	6.1	5.4
P/ABV	x	1.3	1.1	0.9
RoE	%	9.3	18.3	17.6
RoA	%	8.4	12.5	12.6

Source:: ICICIdirect.com Research

- JK Lakshmi Cement is a North India based cement company having an integrated cement plant with the capacity of 4.2 MTPA at Sirohi, Rajasthan and 0.55 MTPA each at Kalol (Gujarat) and Jhajjar (Haryana). JKLC is expanding its cement capacity by 2.7MTPA at Durg, Chhattisgarh over next one or two years

- On account of strong demand growth expectations in northern, central and western regions, we expect cement volumes to grow at ~7% CAGR during FY12-14E to 5.6 MT in FY14E from 4.9 MT in FY12. Also, improvement in utilisation rates, going forward, would help in sustainable pricing. We expect realisation to grow ~16% YoY in FY13E and ~6% in FY14E. Margins are expected to improve in FY13E/14E, led by improvement in realisations and operating leverage benefits

- We remain positive on the stock on account of capacity expansion led volume growth, improvement in margins and return ratios and cheap valuations. It is trading at $54/tonne at FY14E capacity of 8.1 MT, which is ~55% discount to the current replacement cost

Marico (Buying Range: ₹205--₹195)

Marico		FY12	FY13E	FY14E
P/E	x	40.1	30.5	24.0
P/ABV	x	11.2	6.3	5.0
RoE	%	30.8	27.7	24.4
RoCE	%	31.9	32.3	30.7

Source: ICICIdirect.com Research

- With falling copra prices, margins for the company should expand, going forward. Marico has high susceptibility to copra (CP) and safflower oil (SO) prices as they constitute ~40% and ~15%, respectively, of its raw material (RM) costs. With CO witnessing ~40% YoY decline, margins would expand, going forward. We believe Marico would be able to sustain 14%+ margins

- With the acquisition of Paras's personal care (Set Wet, Zatak and Livon) business, the company has added new category within its fold. we believe the company would continue to witness robust volume growth on the back of shift in consumer preference for Branded products. We believe the company the company would continue to witness healthy volume growth in future.

- The stock has been trading in the range of 23x-28x two year forward PE, which is discount to FMCG index. With the sustainable volume growth and healthy margins, the company would start commanding higher multiple in future. We remain positive on the stock.

Glenmark Pharma (Buying Range: ₹430-₹410)

Glenmark		FY12	FY13E	FY14E
P/E	x	25.3	20.8	15.4
EV/EBTIDA	x	16.0	14.3	11.2
RoE	%	19.3	21.5	24.2
RoCE	%	15.3	20.4	24.3

Source: ICICIdirect.com Research

- The company is the one of the few generic companies, which enjoys a substantial foothold in therapies like Derma and oral contraceptives in the US market, which has caused strong CAGR of 21% between FY08 and FY12 in the US. We believe the growth story will only get better on the back of robust pipeline of 81 ANDAs approved and 43 ANDAs pending for approval from USFDA. The 43 pending applications include 19 are Para IV filings

- As per latest AIOCD data, Glenmark is the second largest player in the dermatology space after GSK Pharma in the domestic market with a market share of 11%. It also enjoys decent market share in therapies like respiratory and cardiac. The company keeps on introducing at least 20 new products and line extensions in the domestic market to strengthen the market share. Sales in the domestic market grew at a CAGR of 18% between FY08 and FY12

- We expect sales, EBITDA and profit to grow at a CAGR of 19%, 18% and 28%, respectively, between FY12 and FY14E. The company is currently trading at ~21x FY13E EPS of ₹ 20.7 and ~15x FY14E EPS of ₹ 27.9

Pantaloon Retail		FY12	FY13E	FY14E
P/E	x	28.9	22.4	17.2
P/ABV	x	4.5	4.0	3.5
RoE	%	16.7	18.7	21.3
RoA	%	1.6	1.7	1.9

Source:: ICICIdirect.com Research

Pantaloon Retail (Buying Range: ₹200-₹190)

- Pantaloon Retail (PRIL), India's largest domestic retailer, has a total operational space of 16.7 million sq ft. Through a series of stake sales (including de-merger of the flagship 'Pantaloon' format, Future Capital stake sale, etc) the company plans to raise ~ ₹ 2,500 crore, which will be used towards debt reduction. This will lead to an annualised interest savings of ~ ₹ 120 crore, thereby boosting profitability by ~30% in FY14E
- PRIL is currently in the space consolidation phase and is closing down unviable stores, thereby saving costs. Prudent space addition, going forward, and cost rationalisation will enable PRIL to maintain its operating margin in the 8.5-9.5% range despite the high margin business (Pantaloon) being hived off. Also, a higher churn due to increasing share of food will ease the working capital requirements of the company
- Going forward, the stake sale in the insurance business (expected to be announced by December 2012), sale of weaker performing business like Ezone and HomeTown, long term benefits of FDI in multi-brand retail and roll out of Goods & Services Tax (GST) will work in PRIL's favour. While we expect PRIL's topline to grow at a CAGR of 7.8% (FY11-14E), PAT is expected to grow at a CAGR of 41.5% owing to reduced interest costs. We have valued Pantaloon Retail at 0.7x FY14E EV/Sales to arrive at a target price of ₹ 248.

Performance Review of Muhurat Picks 2011 and the way ahead…

Company	Reco Price	CMP	Return till date (%)	Comment
Biocon	345.6	288.5	-16.3	The stock has corrected on the back of Pfizer deal falling apart. However, the base business remains strong and growing at a reasonable pace. But we suggest hold as we see (a) short-terms triggers such as monetisation of R&D pipeline (b) ramp up in the domestic formulations business especially in the Insulin space, and (c) Possible unlocking of Syngene via IPO
HDFC Bank	487.0	640.0	31.0	The stock has rewarded the investors over the past year owing to consistent earnings and business performance in a challenging environment. Due to wide divergence in the performance of private and public sector banks, market is giving premium valuations to private banks, particularly to HDFC Bank for its earnings visibility. Going forward, though we believe the bank's business to maintain the healthy trend, considering the rich valuations we expect upside to be limited and hence recommend investors to book
HPCL	343.0	302.0	-11.9	The last year has been difficult for oil marketing companies (OMC's) as Brent crude oil prices continued to remain at high levels. Also, sharp depreciation in the Indian rupee and volatility in oil prices impacted HPCL's profitability. In spite of increase in diesel prices and cap on LPG cylinders, under-recoveries continue to remain high. Due to change in scenario, we recommend to exit stock at higher levels
ITC	204.0	290.0	42.1	In the volatile market, the stock has given excellent return. Despite most of the FMCG stocks are trading at a very high valuation multiple, ITC remains an exception and still trades at discount to FMCG Index. We believe ITC is a pure portfolio stock with the consistent performance over the years. We recommend investors to hold on to the stock with the positive outlook for the long term period

Source:ICICIdirect.com Research

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